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Korea, Republic of

Dairy and Products

Annual

2003

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Report Highlights:

Imports of dairy products in 2003 have been negatively impacted by the slow Korean economy and the domestic surplus of milk production. The surplus is being used to produce greater quantities of non-fat dry milk (NFDM) and cheese than in previous years. There is still a demand for high-quality U.S. cheeses despite the economic difficulties and it is expected that imports from the U.S. will grow at an annual rate of 5 percent for the foreseeable future.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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[KS]

Section I. Situation And Outlook - South Korea

Korea imported approximately \$172 million in 2002. Cheese products accounted for half of all dairy imports, whey products accounted for 30 percent, mixed milk powder accounted for 9 percent, and ice cream accounted for 6 percent.

The U.S. currently has an 18 percent market share by value for dairy products, except for ice cream for which the U.S. has a 60 percent market share.

Table 1: Major Dairy Products Import to Korea (2001- 2002)

(Metric Tons)

Products (HS Code)	Current Tariff	2001		2002		% Change	
		U.S.	Total	U.S.	Total	U.S.	Total
Cheese (HS0406)	37.1%	3,728	34,453	3,910	31,984	5%	-7%
NFDM (HS0402.10)	(20% - 180.4%) ¹	0	5,110	0	4,150	0	-2%
Whole Fat DM (HS0402.21)	(40% - 180.4%) ²	0	1,640	0	1,071	0	-35%
Mixed Milk (HS0404.90)	37.1%	918	18,204	0	13,946	-100%	-23%
Butter (HS0405.10)	(40%-90%) ³	19	1,042	20	1,000	-5%	-4%
Whey Powder (HS0404.10.10)	(20% - 54.5%) ⁴	14,662	25,871	15,754	26,487	7%	2%
Ice Cream (HS2105)	54.6%	2,054	2,374	1,701	2,785	-17%	17%

Source: 2003 Korea Customs & Trade Institute

Notes:

1: 20% tariff within the quota of 988.1 metric tons, 180.4% tariff out of the quota

2: 40% tariff with the quota of 547.5 metric tons, 180.4% tariff out of the quota

3: 40% tariff within the quota of 401.1 metric tons, 90% tariff out of the quota

4: 20% tariff within the quota of 50,763 metric tons, 54.5% tariff out of the quota

Korea does not import raw milk because of the domestic production surplus. Limited domestic production facilities and unreliable local supplies, however, will continue to encourage imports of other dairy products. The expanding younger age groups and the trend toward western foods have supported increased consumption of dairy products.

Table 2: Per Capita Consumption of Selected Dairy Products

(Kilogram)

	Raw Milk	Fluid Milk	Fermented Milk	Cheese	Butter	Condensed Milk
1986	28.2	22.1	4.1	0.02	0.09	0.06
1990	42.8	31.2	8.2	0.17	0.17	0.08
1995	47.8	34.5	13.0	0.26	0.06	0.08
2000	59.7	35.9	11.2	0.92	0.10	0.09
2002	63.9	34.7	11.2	1.09	0.11	0.08

Source: Korea Dairy Industry Association

Older Korean consumers do not consume dairy products; however younger consumers are becoming more familiar with the taste. The surplus of raw milk production, has led the government to promote milk in school and through the media. Cheese consumption continues to get a boost from the proliferation of pizza restaurants.

The sluggish domestic economic situation has also lent to slowing of dairy imports. Although economic growth rates are expected to be 3 to 4 percent in 2003, this is a significant decline from the 6.3 percent of 2002. In addition, the local production of NFDM and cheeses is expected to increase in 2003. Industry sources, nevertheless, expect that there will still be a significant demand for high quality U.S. cheeses.

The Korean Ministry of Agriculture & Forestry (MAF) plans to cut domestic raw milk production by seven percent in 2003, and another three percent in 2004. MAF has been performing that it would compensate farmers 8 cents (96 Korean Won) per liter if they (based on past production history) reduced production since July 2003, and compensated US\$83 (100,000 Korean Won) per liter if they stopped producing milk permanently during a month last June 2003 .

The data below shows the downward trend in herd size and farm numbers. Conversely, the number of head per farm has gone up which is more efficient to profit.

Table 3: Dairy Herd Information

	December 2001	March 2002	June 2002	September 2002	December 2002
Total Dairy Cows (% Change from 2001)	548,000	548,000	545,000	543,000	544,000 (99.3%)
Milking Cows (% Change from 2001)	258,000	270,000	263,000	255,000	252,000 (97.7%)
Dairy Farms (% Change from 2001)	12,800	12,300	12,100	12,000	11,700 (91.4%)
Dairy Cows Per Farm	42.7	44.5	44.9	45.2	46.4

Source: 2003 Korea Livestock Yearbook

Besides controlling the quantity of milk production, MAF is encouraging (through state governments) consumers to drink dairy beverages instead of carbonated sodas. A nationwide campaign for milk consumption and promotion includes educating the public about the benefits and superiority of milk relative to other beverages.

1. Fluid Milk

In 2002, Korean raw milk production was 2.537 million metric tons, up 8 percent from the previous year, but drinkable (pasteurized) milk consumption decreased by 4.4 percent, this category includes regular white milk and flavored milks. Regular white milk is becoming less popular than flavored milks and regular white milk consumption has declined 7.2 percent in the past year. Out of total production, 373,000 metric tons was processed and the remaining 500,000 metric ton was surplus. Despite the surplus of raw milk, Korea still needs to import milk powders. The price for local raw milk is about double the price of imported milk powder.

The following table shows the MAF's official estimates for milk production and consumption.

Table 4: Overall Milk Supply and Demand¹

(Thousand Metric Tons)

Year	Supply			Demand	Self Sufficiency	NFDM Inventory
	Production	Import	Total			
1998	2,027	282	2,309	2,299	88.2%	8.3
1999	2,244	456	2,700	2,752	81.5%	3.6
2000	2,253	640	2,893	2,807	80.2%	10.7
2001	2,339	653	2,992	3,046	76.8%	5.8
2002	2,537	646	3,183	3,060	82.9%	13.6

Source: 2003 Korea Livestock Yearbook by Agriculture Fishery & Livestock Newspaper

Notes:

1: All dairy products were converted into raw milk equivalent units.

A growing niche market in Korea for beverages is that of 'functional milk:' milk with added nutrition, such as fruit flavored, soymilk, calcium, iron or vitamins. The consumption of these niche milk products has been growing at the rate of 10 percent per year.

Of total local milk production in 2002, 66 percent was consumed as fluid milk and the remaining was further processed. In the first half of 2003, domestic (drinking) milk consumption decreased by 3.8 percent, due to the falling birthrate, increased breast-feeding and the development of a wide variety of competing beverages, including the functional and health beverages mentioned above. The demand for functional drinking yogurt increased 5 percent annually and flavored milk increased 16 percent annually during past four years.

2. Cheese

Total imports of cheese products were \$85 million (32,000 metric tons) in 2002, a decrease of 7 percent from the previous year. Imports of cheese products in 2003 are forecast to reach 33,600 metric tons.

Total cheese imports are expected to increase 5 percent in 2004 due to the lack of domestic production facilities and the increase in consumer demand for cheese products. The changing tastes of younger consumers and the continuing growth in fast food and "family style" restaurants, serving western foods, such as pizza and cheese burgers, are expected to contribute to the increase in demand for a wide variety of cheese products in 2004.

Local cheese production is constrained by the lack of manufacturing facilities. In 2003, however, the Korean government implemented a program to support the development of individual farm cheese plants. This "Ranch Style Dairy Processing Plant" will enable farmers to utilize their surplus raw milk to make cheese and other value-added cheese products, a program patterned after a Japanese program. This program, while supporting the local farmer, is not expected to impact cheese imports in 2003. The slight increase in local production expected in 2004 will, likewise, not have a noticeable impact on import demand.

While imports of U.S. cheese are benefiting from the general increase in cheese consumption, there is strong competition from Australia and New Zealand. The average price of imported U.S. cheese (\$3.72/kg) was \$1.31 higher than its competitors. Despite this difference, U.S. cheese has a good reputation among Korean consumers for taste and quality.

3. Nonfat Dry Milk (NFDM)

Imports of NFDM are forecast to decrease 7 percent in 2003 because there is a surplus of raw milk production and locally produced NFDM. The retail price of locally manufactured NFDM is only \$2 - \$2.50 per kilogram due to the current surplus of NFDM while the manufacturing cost is \$5.20 per kilogram.

There is an import tariff quota of 988 metric tons for NFDM, within the quota the tariff is 20 percent and out of the quota is 180.4 percent. From January to July 2003, imports of NFDM were 2,338 metric tons, a 13% decrease compared to same period of last year. The average cost from the EU, Australia and New Zealand was \$1.65 per kilogram based on CIF value.

Local food processors import NFDM for the purpose of reexporting to other countries including Saudi Arabia, Taiwan, China and Bangladesh after having processed it into infant formula. The Korea Customs Service reimburses the high tariff of 180.4 percent to importers when they have reexported the processed dairy products made from imported NFDM.

Most of NFDM is imported from Australia, New Zealand and the EU. There were no imports from the United States in 2002 nor to date in 2003, importers complain the U.S. price is too high.

The continuing decline in Korea's birth rate and the increasing popularity of breast feeding is leading to a decline in the local infant formula market. Domestic infant formula sales decreased 30 percent over the past two years. Last year's birth rate was only 1.17, which is the lowest in the world. The industry has been releasing premium quality formula although the strategy is showing big growth; the infant formula market is downsizing. In 2002, the domestic infant formula market decreased 9 percent from the previous year, however, the premium market with price range at over \$16.7 (20,000 Korean Won) per 800 grams increased by 20 percent.

4. Other Dairy Products

Ice Cream

In 2003, the ice cream market in Korea is expected to grow 15 percent and the functional ice cream market will increase 260 percent. Functional ice cream is low fat, low sugar and green tea ice cream, and it has been launched into the market targeting adults as well as teenagers highly interested in health and beauty. In 2002, the ice cream market recorded \$650 million (780 billion Korean Won) in sales. The sales of functional ice cream's accounted for \$5.8 million (7 billion Korean Won), about 0.9 percent market share.

Because ice cream imports grew at an average rate of 23 percent in the past five years, it was anticipated that they would continue to increase at a rate of about 10-20 percent in the next five years. However, the largest importer, Hagen dazs, has begun to use ice cream manufactured in France instead of the U.S. for export to Korea. This switch resulted in the U.S. market share dropping from 84 percent in 2001 to 60 percent in 2002. Additionally, the Dippin & Dots Ice Cream Company and the Mini Melts Company are now manufacturing their ice cream (starting in 2002) via local Korean manufacturing plants. Consequently, the U.S. market share has dropped further to 42 percent so far in 2003 and it is expected to continue to decline.

The Korean ice cream market is dominated by four Korean ice cream manufacturing companies, which accounted for 90 percent of the whole ice cream market in 2002. Out of the remaining 10 percent, leading premium ice cream companies such as, Baskin Robins and Dippin Dots (locally produced with imported ingredients) accounted for 5 percent. Other major premium imported brands are Blue Bunny, Dryers and Ben & Jerry's.

The ice cream market has been slow this year due to the lackluster economy and the lack of warm weather during the summer months.

Whey Powder

Although whey powder imports are forecast to increase 15 percent by volume in 2003, value-wise they will be about same as the previous year due to the lower prices and the weak U.S. dollar. Imported whey powder costs an average of \$0.41 per kilogram on a CIF basis. Imports of whey powder should continue to increase as there are not enough local facilities to produce the whey powder to meet the local demand.

Imports of whey powder(HS 0404-10-1010) were \$12 million (26,487 metric ton) in 2002, increased by 2 percent from 25,871 metric ton in 2001. Seventy percent of imported whey powder is utilized for animal feed. In 2002, \$7.1 million (15,754 metric ton) was imported from U.S with a market share of 60 percent.

Table 5: Imports of Whey in 2002

Products (HS Code)	Volume (Metric Tons)		Value (U.S. Dollars)	
	Total Imports	Imports from U.S.	Total Imports	Imports from U.S.
Whey Powder (0404-10-1010)	26,487,024	15,754,373	12,115,468	7,103,189
Other (0404-10-1090)	25	5	2,597	244
Demineralized Whey (0404-10-2120)	6,119,660	9,960	6,685,332	63,904
WPC (0404-10-2130)	406,708	65,183	1,585,929	783,679
Other (0404-10-2190)	2,336,645	1,917,800	2,525,129	1,092,900
Other Mixed Milk Powder (0404-90-0000)	13,945,851	84	26,276,637	241
TOTAL (0404)	49,295,913	17,747,400	49,191,092	9,044,157

SECTION II. PS&D TABLES

PSD Table

Country	Korea, Republic of						
Commodity	Dairy, Milk, Fluid						(1000 HEAD)(1000 MT)
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [	Estimate [DA	Official [	Estimate [DA	Official [	Estimate [New]	
Market Year Begin	01-2002		01-2003		01-2004		MM/YYYY
Cows In Milk	0	252	0	239	0	237	(1000 HEA
Cows Milk Production	0	2537	0	2359	0	2288	(1000 MT)
Other Milk Production	0	0	0	0	0	0	(1000 MT)
TOTAL Production	0	2537	0	2359	0	2288	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	0	2537	0	2359	0	2288	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Fluid Use Dom. Consum.	0	1664	0	1533	0	1487	(1000 MT)
Factory Use Consum.	0	873	0	826	0	801	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumptic	0	2537	0	2359	0	2288	(1000 MT)
TOTAL DISTRIBUTION	0	2537	0	2359	0	2288	(1000 MT)
Calendar Yr. Imp. from U.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

PSD Table

Country	Korea, Republic of						
Commodity	Dairy, Cheese						
	(1000 MT)						
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [	Estimate [DA	Official [	Estimate [DA	Official [	Estimate [New]	
Market Year Begin	01-2002			01-2003		01-2004	MM/YYYY
Beginning Stocks	3	3.014	2	4.629	3	3	(1000 MT)
Production	18	20.706	20	22.776	0	25.053	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	31	31.984	34	33.6	0	35.28	(1000 MT)
TOTAL Imports	31	31.984	34	33.6	0	35.28	(1000 MT)
TOTAL SUPPLY	52	55.704	56	61.005	3	63.333	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	1	0.545	2	0.7	0	0.8	(1000 MT)
TOTAL Exports	1	0.545	2	0.7	0	0.8	(1000 MT)
Human Dom. Consumptic	49	50.53	51	57.305	0	58.533	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	49	50.53	51	57.305	0	58.533	(1000 MT)
TOTAL Use	50	51.075	53	58.005	0	59.333	(1000 MT)
Ending Stocks	2	4.629	3	3	0	4	(1000 MT)
TOTAL DISTRIBUTION	52	55.704	56	61.005	0	63.333	(1000 MT)
Calendar Yr. Imp. from U.	4	3.91	5	4.4	0	4.84	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Export Trade Matrix

Country Korea, Republic of
Commodity Dairy, Cheese

Time Period	CY2002	Units:	Metric Ton
Exports for:		Jan-July 2003	1
U.S.	20	U.S.	0
Others		Others	
Japan	488	Japan	353
Australia	24	Australia	8
		Phillipines	35
		NewZealand	15
Total for Others	512		411
Others not Listed			7
Grand Total	532		418

Import Trade Matrix

Country Korea, Republic of

Commodity Dairy, Cheese

Time Period **CY2002** Units: **Metric Ton**

Imports for: **Jan-July 2003** **1**

U.S. **3910** U.S. **2448**

Others Others

Australia	13649	Australia	9491
New Zealand	10983	New Zealand	6475
EU	2363	EU	2252
Canada	980	Canada	412

Total for Others 27975 18630

Others not Listed **99** **6**

Grand Total 31984 21084

PSD Table

Country	Korea, Republic of						
Commodity	Dairy, Milk, Nonfat Dry						(1000 MT)
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official	Estimate	DA Official	Estimate	DA Official	Estimate [New]	
Market Year Begin	01-2002		01-2003		01-2004		MM/YYYY
Beginning Stocks	6	5.257	9	11.373	8	10.5	(1000 MT)
Production	22	35.946	23	33.43	0	32.427	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	5	4.15	5	3.86	0	3.744	(1000 MT)
TOTAL Imports	5	4.15	5	3.86	0	3.744	(1000 MT)
TOTAL SUPPLY	33	45.353	37	48.663	8	46.671	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0.016	0	0.02	0	0.02	(1000 MT)
TOTAL Exports	0	0.016	0	0.02	0	0.02	(1000 MT)
Human Dom. Consumptic	24	33.964	29	38.143	0	36.466	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	24	33.964	29	38.143	0	36.466	(1000 MT)
TOTAL Use	24	33.98	29	38.163	0	36.486	(1000 MT)
Ending Stocks	9	11.373	8	10.5	0	10.185	(1000 MT)
TOTAL DISTRIBUTION	33	45.353	37	48.663	0	46.671	(1000 MT)
Calendar Yr. Imp. from U.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)
				TS=TD		TS=TD	
				7.11E-15		7.11E-15	

Export Trade Matrix

Country Korea, Republic of

Commodity Dairy, Milk, Nonfat Dry

Time Period Units:

Exports for: Jan-July 2003

U.S. U.S.

Others Others

Thailand	16	New Zealand	0

Total for Others 16 0

Others not Listed

Grand Total 16 0

Import Trade Matrix

Country Korea, Republic of

Commodity Dairy, Milk, Nonfat Dry

Time Period Units:

Imports for:

U.S. U.S.

Others Others

Australia	1226	Australia	1213
New Zealand	873	New Zealand	635
EU	1934	EU	468
Ukraine	117	Canada	22

Total for Others 4150 2338

Others not Listed

Grand Total 4150 2338